Table of Contents

The following tables show: 1) amounts recorded in accumulated other comprehensive loss related to derivative instruments accounted for as cash flow hedges; 2) the notional amounts and fair values of derivatives terminated for the periods presented; and 3) the amortization of terminated interest rate swaps included in operating interest expense and operating interest income (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Impact on accumulated other comprehensive loss (net of taxes):				
Beginning balance	$ (28,780)	$ 7,959	$ (27,844)	$ (70,831)
Gains on cash flow hedges related to derivatives, net	63,494	75,209	62,370	150,743
Reclassifications into earnings, net	170	1,824	358	5,080
Ending balance	$ 34,884	$ 84,992	$ 34,884	$ 84,992
Derivatives terminated during the period:				
Notional	$3,015,000	$4,850,000	$3,705,000	$8,110,000
Fair value of net gains recognized in accumulated other comprehensive loss	$ 7,849	$ 80,348	$ 5,472	$ 113,894
Amortization of terminated interest rate swaps and options included in operating interest expense and operating interest income	$ (53)	$ 2,568	$ 255	$ 7,690

The gains accumulated in other comprehensive loss on the derivative instruments terminated shown in the preceding table will be included in operating interest expense and operating interest income over the periods the variable rate liabilities and hedged forecasted issuance of liabilities will affect earnings, ranging from 11 days to almost 15 years.

The following table shows the balance in accumulated other comprehensive loss attributable to open cash flow hedges and discontinued cash flow hedges (dollars in thousands):

	June 30,	
	2007	2006
Accumulated other comprehensive loss balance (net of taxes) related to:		
Open cash flow hedges	$ 8,906	$43,324
Discontinued cash flow hedges	25,978	41,668
Total cash flow hedges	$34,884	$84,992

Hedge Ineffectiveness

In accordance with SFAS No. 133, as amended, the Company recognizes hedge ineffectiveness on both fair value and cash flow hedge relationships. The amount of ineffectiveness recorded in earnings for cash flow hedges is equal to the excess of the cumulative change in the fair value of the actual derivative over the cumulative change in the fair value of a hypothetical derivative which is created to match the exact terms of the underlying instruments being hedged. These amounts are reflected in the other expense excluding interest line item in the consolidated statement of income. Cash flow and fair value ineffectiveness is re-measured on a quarterly basis. The following table summarizes income (expense) recognized by the Company as fair value and cash flow hedge ineffectiveness (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Fair value hedges	$ 2,848	$ 5,626	$1,766	$3,681

Cash flow hedges	(291)	(329)	(251)	(353)
Total hedge ineffectiveness	$ 2,557	$ 5,297	$1,515	$3,328

Table of Contents

Mortgage Banking Activities

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding. These commitments are referred to as Interest Rate Lock Commitments ("IRLCs"). IRLCs on loans that the Company intends to sell are considered to be derivatives and are, therefore, recorded at fair value with changes in fair value recorded in earnings. For purposes of determining fair value, the Company performs a net present value analysis of the anticipated cash flows associated with these IRLCs. The net present value analysis performed excludes the market value associated with the anticipated sale of servicing rights related to each loan commitment. The fair value of these IRLCs was a $0.2 million asset and a $0.02 million liability at June 30, 2007 and December 31, 2006, respectively.

The Company also designates fair value relationships of closed loans held-for-sale against a combination of mortgage forwards and short treasury positions. Short treasury relationships are economic hedges, rather than fair value or cash flow hedges. Short treasury positions are marked-to-market, but do not receive hedge accounting treatment under SFAS No. 133, as amended. The mark-to-market of the mortgage forwards is included in the net change of the IRLCs and the related hedging instruments. The fair value of the mark-to-market on closed loans was a $0.1 million and $1.7 million asset at June 30, 2007 and December 31, 2006, respectively.

IRLCs, as well as closed loans held-for-sale, expose the Company to interest rate risk. The Company manages this risk by selling mortgages or mortgage-backed securities on a forward basis referred to as forward sale agreements. Changes in the fair value of these derivatives are included as gain on sales of loans and securities, net in the consolidated statement of income. The net change in IRLCs, closed loans, mortgage forwards and the short treasury positions generated net losses of $0.7 million and $2.2 million for the three and six months ended June 30, 2007, respectively. The net change in IRLCs, closed loans, mortgage forwards and the short treasury positions generated net losses of $0.7 million and $0.9 million for the three and six months ended June 30, 2006, respectively.

NOTE 8—OTHER ASSETS

Other assets consist of the following (dollars in thousands):

	June 30, 2007	December 31, 2006
Deposits paid for securities borrowed	$ 619,294	$ 448,047
Derivative assets	374,300	208,136
Accrued interest receivable	315,515	182,265
Third party loan servicing receivable	231,352	241,511
Other investments	221,398	138,006
Net settlement and deposits with clearing organizations	181,625	137,571
Fails to deliver	160,537	86,517
Other receivables from brokers, dealers and clearing organizations	73,667	72,596
Prepaids	35,622	41,216
Unamortized debt issue costs	22,377	26,498
Deferred compensation plan	21,398	20,584
Servicing rights	7,732	8,487
Other	285,610	185,547
Total other assets	$2,550,427	$ 1,796,981

Table of Contents

NOTE 9—ASSET SECURITIZATION

Collateralized Debt Obligations ("CDO")

On April 12, 2007, an unrelated financial advisor ("Advisor") transferred $388.9 million in asset-backed securities to E*TRADE ABS CDO VI, Ltd. ("CDO VI"). The Company had previously transferred $46.9 million in asset-backed securities to the Advisor for transfer to CDO VI. Additionally, the Company utilized a warehouse line with the Advisor to purchase $342.0 million of asset-backed securities that were also transferred to CDO VI. Concurrent with these transfers, CDO VI sold total beneficial interests of $420.0 million to investors in the form of senior notes, subordinated notes and preference shares collateralized by the asset-backed securities. Additional purchases of asset-backed securities were made in open market transactions and transferred to CDO VI within 60 days following the closing date. As of June 30, 2007, 100% of the pool of underlying securities had been transferred into CDO VI.

The CDO VI transaction is a managed deal whereby the portfolio manager, ETGAM, is appointed to actively manage the collateral of the CDO. Because CDO VI is a managed deal, it is a special purpose entity and not a qualified special purpose entity. The CDO VI transaction was accounted for as a sale in accordance with SFAS No. 140.

The Company purchased $3.6 million of preference shares in CDO VI. Retained interests are subordinate to the notes sold by CDO VI and on an equal standing with the preference shares purchased by other preference share investors in CDO VI. Neither CDO VI itself nor the investors in the beneficial interests sold by CDO VI have recourse to the Company.

The Company reviewed CDO VI to determine if consolidation was necessary under the requirements of FIN 46R. The calculation of CDO VI's beneficial interests indicated that the Company was not the recipient of the majority of the potential benefits or losses of the deal. Therefore, the Company is not the primary beneficiary of the transaction and is not required to consolidate the CDO.

The following table summarizes the asset-backed securities transferred to CDO VI at closing, the amount of the cash proceeds and the preference shares purchased by the Company (dollars in millions):

		Asset-Backed Securities Transferred to CDO at closing				Preference Shares Purchased by E*TRADE
CDO	Transaction Date	E*TRADE	Independent Investment Advisor	Total	Proceeds	Amount
CDO VI	April 2007	$ 46.9	$ 342.0	$388.9	$ 420.0	$ 3.6

NOTE 10—DEPOSITS

Deposits are summarized as follows (dollars in thousands):

	Weighted-Average Rate		Amount		Percentage to Total	
	June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
Sweep deposit accounts	0.93%	0.94%	$10,995,856	$10,837,124	39.6%	45.0%
Money market and savings accounts	4.38%	4.33%	11,354,555	7,634,241	40.9	31.7
Certificates of deposit[(1)]	5.01%	5.02%	4,617,397	4,737,253	16.6	19.7
Brokered certificates of deposit[(2)]	4.07%	3.95%	406,802	483,777	1.5	2.0
Checking accounts	1.39%	1.06%	396,139	378,617	1.4	1.6
Total deposits	3.07%	2.88%	$27,770,749	$24,071,012	100.0%	100.0%

(1) Represents retail certificates of deposit, including retail brokered certificates of deposit.

(2) Represents institutional certificates of deposit.

Table of Contents

NOTE 11—OTHER BORROWINGS

ETBH raises capital through the formation of trusts which sell trust preferred stock in the capital markets. The capital securities must be redeemed in whole at the due date, which is generally 30 years after issuance. Each trust issued Floating Rate Cumulative Preferred Securities, at par with a liquidation amount of $1,000 per capital security. The trusts use the proceeds from the sale of issuances to purchase Floating Rate Junior Subordinated Debentures issued by ETBH, which guarantees the trust obligations and contributes proceeds from the sale of its subordinated debentures to E*TRADE Bank in the form of a capital contribution.

During January, March and May 2007, ETBH formed three trusts, ETBH Capital Trust XXVIII, ETBH Capital Trust XXIX and ETBH Capital Trust XXX, respectively. Information related to these trusts is shown below (dollars in thousands):

Trusts	Face Value	Maturity Date	Annual Interest Rate
ETBH Capital Trust XXVIII	$25,000	2037	2.00% above 3-month LIBOR
ETBH Capital Trust XXIX	$15,000	2037	1.95% above 3-month LIBOR
ETBH Capital Trust XXX	$20,000	2037	1.90% above 3-month LIBOR

NOTE 12—ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

Accounts payable, accrued and other liabilities consist of the following (dollars in thousands):

	June 30, 2007	December 31, 2006
Deposits received for securities loaned	$ 931,549	$ 1,012,831
Other payables to brokers, dealers and clearing organizations	322,111	350,221
Accounts payable and accrued expenses	281,582	335,117
Fails to receive	143,265	84,864
Subserviced loan advances	66,284	44,780
Derivative liabilities	45,170	78,710
Senior and convertible debt accrued interest	20,283	20,125
Restructuring liabilities	19,639	26,892
Other	486,060	377,156
Total accounts payable, accrued and other liabilities	$2,315,943	$ 2,330,696

NOTE 13—INCOME TAXES

Effective January 1, 2007, the Company adopted FIN 48. As a result of the implementation the Company recognized a $14.9 million increase to its liability for unrecognized tax benefits, which was accounted for as a reduction to the beginning balance of retained earnings. The total amount of gross unrecognized tax benefits as of January 1, 2007 was $150.4 million. Of this total amount, $51.6 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. This amount increased to $54.5 million for the period ended June 30, 2007. The gross unrecognized tax benefit was reduced to $78.4 million at June 30, 2007 principally due to tax accounting method change requests filed with the Internal Revenue Service ("IRS").

The following table summarizes the tax years that are either currently under audit or remain open under the statute of limitations and subject to examination by the major tax jurisdictions in which the Company operates:

Jurisdiction	Open Tax Year
Canada	2001 – 2006
United Kingdom	2005 – 2006
United States	2003 – 2006
Various States(1)	1996 – 2006

(1) Includes California, Georgia, New York and Virginia.

Table of Contents

It is likely that certain examinations may be settled or the statute of limitations could expire with regards to other tax filings, in the next twelve months. In addition, proposed legislation could favorably impact certain of the Company's unrecognized tax benefits. Such events would generally reduce the Company's unrecognized tax benefits, either because the tax positions are sustained or because the Company agrees to the disallowance, by as much as $12.7 million, substantially all of which could affect the Company's total tax provision or the effective tax rate.

The Company's continuing practice is to recognize interest and penalties, if any, related to income tax matters in income tax expense. After the adoption of FIN 48, the Company has total gross reserves of $15.1 million for the payment of interest as of January 1, 2007. The total gross reserves were reduced to $7.8 million as of June 30, 2007 due to the filing of tax accounting method change requests with the IRS.

NOTE 14—EARNINGS PER SHARE

The following table is a reconciliation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Basic:				
Numerator:				
Net income from continuing operations	$159,129	$156,692	$328,539	$299,676
Loss from discontinued operations, net of tax	—	(208)	—	(721)
Net income	$159,129	$156,484	$328,539	$298,955
Denominator:				
Basic weighted-average shares outstanding	423,308	421,929	423,546	418,324
Diluted:				
Numerator:				
Net income	$159,129	$156,484	$328,539	$298,955
Denominator:				
Basic weighted-average shares outstanding	423,308	421,929	423,546	418,324
Effect of dilutive securities:				
Weighted-average options and restricted stock issued to employees	11,325	15,184	11,778	15,361
Weighted-average warrants and contingent shares outstanding	248	248	248	248
Weighted-average mandatory convertible notes	894	2,099	1,136	1,985
Diluted weighted-average shares outstanding	435,775	439,460	436,708	435,918
Per share:				
Basic earnings per share:				
Earnings per share from continuing operations	$ 0.38	$ 0.37	$ 0.78	$ 0.72
Loss per share from discontinued operations	—	(0.00)	—	(0.00)
Net earnings per share	$ 0.38	$ 0.37	$ 0.78	$ 0.72
Diluted earnings per share:				
Earnings per share from continuing operations	$ 0.37	$ 0.36	$ 0.75	$ 0.69
Loss per share from discontinued operations	—	(0.00)	—	(0.00)
Net earnings per share	$ 0.37	$ 0.36	$ 0.75	$ 0.69

Table of Contents

Excluded from the calculations of diluted earnings per share are 1.2 million and 4.5 million shares of common stock for the three and six months ended June 30, 2006, respectively, issuable under convertible subordinated notes as the effect of applying the treasury stock method on an if-converted basis would be anti-dilutive. There were not any shares issuable under convertible subordinated notes excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2007.

The following options to purchase shares of common stock have not been included in the computation of diluted earnings per share as their effect would be anti-dilutive (shares in thousands, except exercise price ranges):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Options excluded from computation of diluted earnings per share	10,515	5,036	9,387	3,828
Exercise price ranges:				
High	$ 58.19	$ 58.19	$ 58.19	$ 58.19
Low	$ 19.11	$ 19.11	$ 19.11	$ 18.62

NOTE 15—SHARE REPURCHASES

On April 18, 2007, the Company announced that its Board of Directors authorized an additional $250.0 million common stock repurchase program (the "April 2007 Plan"). The April 2007 Plan is open-ended and allows for the repurchase of common stock on the open market, in private transactions or a combination of both.

During 2007, the Company repurchased common stock under the April 2007 Plan and a $200.0 million repurchase program approved by the Board in December 2004 (the "December 2004 Plan"). During the three months ended June 30, 2007, the Company completed the December 2004 Plan. The table below shows the timing and impact of the repurchases during the six months ended June 30, 2007 (dollars in thousands, except per share amounts):

Three Months Ended	Total Number of Shares Purchased	Aggregate Price	Average Price Paid per Share	Maximum Dollar Value of Shares That May Yet be Purchased Under the April 2007 and December 2004 Plans
March 31, 2007	1,030,000	$ 23,022	$ 22.35	$ 34,142
June 30, 2007	3,128,625	$ 72,883	$ 23.30	$ 211,259

NOTE 16—REGULATORY REQUIREMENTS

Registered Broker-Dealers

The Company's U.S. broker-dealer subsidiaries are subject to the Uniform Net Capital Rule (the "Rule") under the Securities Exchange Act of 1934 administered by the SEC, the NYSE and NASD, which requires the maintenance of minimum net capital. The minimum net capital requirements can be met under either the Aggregate Indebtedness method or the Alternative method. Under the Aggregate Indebtedness method, a broker-dealer is required to maintain minimum net capital of the greater of $6\,^2/_3$% of its aggregate indebtedness, as defined, or a minimum dollar amount. Under the Alternative method, a broker-dealer is required to maintain net capital equal to the greater of $250,000 or 2% of aggregate debit balances arising from customer transactions.

The Company uses both the Aggregate Indebtedness and the Alternative methods to compute net capital. The method used depends on the U.S. individual broker-dealer subsidiary. The Company's international broker-dealer subsidiaries, located in Canada, Europe and Asia, are subject to capital requirements determined by their

respective regulators.

Table of Contents

As of June 30, 2007, all of the Company's broker-dealer subsidiaries met minimum net capital requirements. Total required net capital was $0.2 billion at June 30, 2007. In addition, the Company's broker-dealer subsidiaries had excess net capital of $0.7 billion at June 30, 2007.

Banking

During the first quarter of 2007, ETC became a wholly-owned operating subsidiary of E*TRADE Bank. ETC continues to be an SEC-registered broker-dealer and is included in the minimum net capital requirements under the Rule. E*TRADE Bank is subject to various regulatory capital requirements administered by Federal banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on E*TRADE Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, E*TRADE Bank must meet specific capital guidelines that involve quantitative measures of E*TRADE Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. E*TRADE Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require E*TRADE Bank to maintain minimum amounts and ratios of Total and Tier I Capital to risk-weighted assets and Tier I Capital to adjusted total assets. As shown in the table below, at June 30, 2007, the most recent date of notification, the OTS categorized E*TRADE Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed E*TRADE Bank's categorization. At June 30, 2007, management believes that E*TRADE Bank meets all capital adequacy requirements to which it is subject. However, events beyond management's control, such as fluctuations in interest rates or a downturn in the economy in areas in which E*TRADE Bank's loans or securities are concentrated, could adversely affect future earnings and E*TRADE Bank's ability to meet its future capital requirements.

E*TRADE Bank's required actual capital amounts and ratios are presented in the table below (dollars in thousands):

	Actual		Minimum Required to Qualify as Adequately Capitalized		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2007[1]:						
Total Capital to risk-weighted assets	$3,625,024	10.58%	>$2,740,792	>8.0%	>$ 3,425,990	>10.0%
Tier I Capital to risk-weighted assets	$3,549,320	10.36%	>$1,370,396	>4.0%	>$ 2,055,594	>6.0%
Tier I Capital to adjusted total assets	$3,549,320	6.15%	>$2,308,714	>4.0%	>$ 2,885,892	>5.0%
December 31, 2006:						
Total Capital to risk-weighted assets	$2,593,081	10.55%	>$1,967,129	>8.0%	>$ 2,458,911	>10.0%
Tier I Capital to risk-weighted assets	$2,525,453	10.27%	>$ 983,565	>4.0%	>$ 1,475,347	>6.0%
Tier I Capital to adjusted total assets	$2,525,453	6.07%	>$1,665,062	>4.0%	>$ 2,081,328	>5.0%

(1) Capital amounts and ratios include ETC.

NOTE 17—COMMITMENTS, CONTINGENCIES AND OTHER REGULATORY MATTERS

Legal Matters

Litigation Matters

In June 2002, the Company acquired from MarketXT Holdings, Inc. (formerly known as "Tradescape Corporation") the following entities: Tradescape Securities, LLC; Tradescape Technologies, LLC; and

Table of Contents

Momentum Securities, LLC. Disputes subsequently arose between the parties regarding the responsibility for liabilities that first became known to the Company after the sale. On April 8, 2004, MarketXT filed a complaint in the United States District Court for the Southern District of New York against the Company, certain of its officers and directors, and other third parties, including SBI and Softbank Corporation, alleging that defendants were preventing plaintiffs from obtaining certain contingent payments allegedly due, and as a result, claiming damages of $1.5 billion. On April 9, 2004, the Company filed a complaint in the United States District Court for the Southern District of New York against certain directors and officers of MarketXT seeking declaratory relief and unspecified monetary damages for defendants' fraud in connection with the 2002 sale, including, but not limited to, having presented the Company with fraudulent financial statements regarding the condition of Momentum Securities, LLC during the due diligence process. Subsequently, MarketXT was placed into bankruptcy, and the Company filed an adversary proceeding against MarketXT and others in January 2005, seeking declaratory relief, compensatory and punitive damages, in those Chapter 11 bankruptcy proceedings in the United States Bankruptcy Court for the Southern District of New York entitled, "In re MarketXT Holdings Corp., Debtor." In that same court, the Company filed a separate adversary proceeding against Omar Amanat in those Chapter 7 bankruptcy proceedings entitled, "In re Amanat, Omar Shariff." In October 2005, MarketXT answered the Company's adversary proceeding and asserted its counterclaims, subsequently amending its claims in 2006 to add a $326 million claim for "promissory estoppel" in which MarketXT alleged, for the first time, that the Company breached a prior promise to purchase the acquired entities in 1999-2000. In April 2006, Omar Amanat answered the Company's separate adversary proceeding against him and asserted his counterclaims. In separate motions before the Bankruptcy Court, the Company has moved to dismiss certain counterclaims brought by MarketXT including those described above, as well as certain counterclaims brought by Mr. Amanat. In a ruling dated September 29, 2006, the Bankruptcy Court in the MarketXT case granted the Company's motion to dismiss four of the six bases upon which MarketXT asserts its fraud claims against the Company; its conversion claim; and its demand for punitive damages. In the same ruling, the Bankruptcy Court denied in its entirety MarketXT's competing motion to dismiss the Company's claims against it. On October 26, 2006, the Bankruptcy Court subsequently dismissed MarketXT's "promissory estoppel" claim. The Company continues to believe that the respective claims brought against it by MarketXT and Omar Amanat are without merit, and the Company will continue both to vigorously defend itself against all such claims and to fully pursue its own claims and damages as described above.

An unfavorable outcome in any matter that is not covered by insurance could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows. In addition, even if the ultimate outcomes are resolved in the Company's favor, the defense of such litigation could entail considerable cost or the diversion of the efforts of management, either of which could have a material adverse effect on the Company's results of operation. In addition to the matters described above, the Company is subject to various legal proceedings and claims that arise in the normal course of business which could have a material adverse effect on its financial position, results of operations or cash flows. The Company contests liability or the amount of claimed damages in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages, or where investigation or discovery have yet to be completed, the Company cannot predict with certainty the loss or range of loss related to such matters, how such matters will be resolved, when they will ultimately be resolved, or what any eventual settlement, fine, penalty or other relief might be. Subject to the foregoing, the Company believes that the outcome of any such pending matter will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome could be material to the Company's or a business segment's operating results in the future, depending, among other things, upon the Company's or business segment's income for such period.

Regulatory Matters

The securities and banking industries are subject to extensive regulation under Federal, state and applicable international laws. As a result, the Company is required to comply with many complex laws and rules, and its ability to comply is dependent in part on the establishment and maintenance of a qualified compliance system. From time to time, the Company has been threatened with or named as a defendant in, lawsuits, arbitrations and

administrative

Table of Contents

claims involving securities, banking and other matters. The Company is also subject to periodic regulatory audits and inspections. Compliance and trading problems that are reported to regulators, such as the SEC, the NYSE, the NASD or the OTS by dissatisfied customers or others are investigated by such regulators, and may, if pursued, result in formal claims being filed against the Company by customers or disciplinary action being taken against the Company or its employees by regulators. Any such claims or disciplinary actions that are decided against the Company could have a material impact on the financial results of the Company or any of its subsidiaries.

The SEC, in conjunction with various regional securities exchanges, is conducting an inquiry into the trading activities of certain specialist firms, including the Company's subsidiary E*TRADE Capital Markets, LLC ("ETCM"), on various regional exchanges in order to determine whether such firms executed proprietary orders in a given security prior to a customer order in the same security (a practice commonly known as "trading ahead") during the period 1999—2005. The SEC has indicated that it will seek disgorgement, prejudgment interest, and penalties from any firm found to have engaged in trading ahead activity to the detriment of its customers during that time period. It is possible that such sanctions, if imposed against ETCM, could have a material impact on the financial results of the Company during the period in which such sanctions are imposed. The Company and ETCM are cooperating with the investigation.

Insurance

The Company maintains insurance coverage that management believes is reasonable and prudent. The principal insurance coverage it maintains covers commercial general liability; property damage; hardware/software damage; cyber liability; directors and officers; employment practices liability; certain criminal acts against the Company; and errors and omissions. The Company believes that such insurance coverage is adequate for the purpose of its business. The Company's ability to maintain this level of insurance coverage in the future, however, is subject to the availability of affordable insurance in the marketplace.

Reserves

For all legal and regulatory matters, reserves are established in accordance with SFAS No. 5. Once established, reserves are adjusted when an event occurs requiring an adjustment. During the second quarter of 2007, the Company increased its reserves by $35.1 million to a level management believes is adequate at this time.

Commitments

In the normal course of business, the Company makes various commitments to extend credit and incur contingent liabilities that are not reflected in the consolidated balance sheet. Significant changes in the economy or interest rates influence the impact that these commitments and contingencies have on the Company in the future.

Loans

The Company had the following mortgage loan commitments (dollars in thousands):

	June 30, 2007		
	Fixed Rate	Variable Rate	Total
Purchase loans	$201,100	$ 2,060,499	$2,261,599
Originate loans	$819,536	$ 522,785	$1,342,321
Sell loans	$140,340	$ 21,192	$ 161,532